

Sony Ericsson in the UK

Gaining a Fair Share of a Burgeoning Market

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## ABSTRACT

London-based Sony Ericsson is doing quite nicely in its home market. Content to leave the market-share battle to industry leader Nokia, Asian brands and newcomer iPhone, the company has done well with a focus on margins. Nonetheless, SEMC enjoyed robust volume and margin gains in 2007 and looks poised to create a new paradigm based on the Esperia X1.

## INTRODUCTION

### Company Background

Headquartered in Hammersmith, London, Sony Ericsson Mobile Communications was established in 2001 as a 50:50 partnership between Sony Corporation of Japan and Telefonaktiebolaget LM Ericsson of Sweden. By March 2002, the partnership had launched its first joint product. Both companies then stopped marketing their individual brands of mobile phones and, since then, have made an entire range of handsets, accessories, applications and value-added services available (see “The Sony Ericsson Product Range” below).

Even with the global clout of SONY in consumer electronics (particularly music and video) and the proven R & D strengths of Ericsson, SEMC must contend for a fair share of dynamic mobile telephony markets worldwide against giants like Nokia of Finland and Motorola of America, as well as recent entrants such as Huawei of China, LG and Samsung of South Korea. One solution SEMC has latched on to is moving forward the goal of becoming a supremely “attractive and innovative global brand in the mobile handset industry” (Sony Ericsson, 2007a).

Given the nature of competition in the mobile handset industry, such a goal has required SEMC to invest in very prominent advertising presence and to maintain a rapid

flow of new designs from electronics, application development and design laboratories now dispersed throughout Sweden, the UK, the Netherlands, France, Japan, China, India and America. (Sony Ericsson, 2008b).

To this end, SEMC has declared its intent to be present in across the board, with offerings at the high-end, mid-market and entry-level segments. Depending on the market situation, the company has matched rival entries or pioneered unique imaging, music, design and applications solutions. While keeping an eye on developments in mobile communications technologies, the SEMC focus is on the Europe-originated Global Standard for Mobile (GSM) telecommunications, and on innovating across 2G and 3G platforms. Naturally, the drive to be more competitive vis-à-vis industry leader Nokia has called for branding with universal appeal (Sony Ericsson, 2007b). For example, the campaign launched two years ago to replace the universally recognized heart symbol with the SEMC logo in many contexts of consumer lifestyle required consumer acceptance testing not only among Britons and Europeans but also in the burgeoning markets of North America, India and East Asia.

This marketing paper will focus on the U.K., home market of SEMC.

### **The Sony Ericsson Product Range**

In broad terms, the SEMC product line spans handsets, accessories, broadband solutions, networking systems for businesses, and value-added applications (Sony Ericsson, 2007d). As a handset provider, SEMC also makes available downloads in the form of interface graphics, music, video, enhancements and upgrades that work only on Sony Ericsson units, of course.


With an eye to image, market franchise and public relations impact, the company styles itself a “global provider of mobile multimedia devices, including feature-rich phones, accessories and PC cards... an enticing brand that creates compelling business opportunities for mobile operators and desirable, fun products for end users” (Sony Ericsson, 2007a). In common with other players in the industry, SEMC products are showcases of technological innovation, leading-edge mobile imaging, music, communications and entertainment.

#### Handsets and Accessories

By brand line, the four most popular handset classes were:

W-series “Walkman”	From an established line of Sony portable audio. Music-centric, marketed beginning 2005.
Cybershot	From an established line of Sony digital still cameras. Leapfrogged the early models of competition by providing a flash from the very beginning. Some models now offered with auto-focus and xenon flash. Came to market in 2006 with the campaign, “Never miss a shot.”
UIQ P800, P900 series, followed by the M, W, G series phones	“Smartphone” to Palm and Blackberry PDA’s. Featured touchscreens, QWERTY keypads and the UIQ interface Platform from Symbian OS, activated with a stylus.
XPERIA X1	Based on the Windows Mobile platform.

Certain models are provided exclusively to a given cellular service provider:













 T-Mobile – the D series of mid- to low-priced units

- ✚ Vodafone – F series of low- to mid-range handsets as well as the higher-end V600-series and 800-series “candy bar” and clamshell designs.

The mobile telephony market is driven less by functionality than by technological advances and design trends. Across the board, SEMC therefore applies total quality management in imposing design mandates in the spheres of feature selection and packaging, user-friendly applications, breakthrough materials and visual appeal. For the company affirms that “design is the essential differentiator when comparing mobile communications products.” (Sony Ericsson, 2007c)

At the Creative Design Centre studios in Lund (Sweden), London, the USA, Asia and Japan, product development teams combine the skills and perspectives of industrial designers, human interface designers, color and material designers and graphic designers. This ensures that usability, aesthetic appeal, and logical menu structures count for as much as innovation for its own sake.

Evidently, product designers also have to consider competitive innovations (witness the design knock-off’s that followed the successful launch of the Apple iPhone in July 2007). As well, they are tasked to be outward-looking, keeping a vigilant eye on fashion, market and consumer trends (Sony Ericsson, 2007c). Such aesthetics, as well as competitive pressures, are evident in the following examples of accessories that enhance customer experience whilst boosting financial results (see overleaf).

<p>Music-oriented accessories:</p>  <p>Sharing one's music</p>	 <p>Stereo Portable Handsfree Kit</p>	 <p>Active Speaker MAS-100 Go on, get out there!</p>
 <p>Portable Bluetooth™ Speaker A wireless sphere of music</p>	 <p>Music Desk Stand Great sound, great design</p>	 <p>Bluetooth™ Watch Executive Edition Dress to impress</p>
 <p>FM Music Transmitter Street legal</p>	 <p>GPS Enabler HGE-100 Keep track</p>	 <p>Snap-on Speakers MPS-75 The small speakers with the big sound</p>
 <p>Music Remote Control Play it loud and clear</p>	 <p>Music Desk Stand Designed for rich sound</p>	 <p>Home Audio System Transform your phone into a home audio system</p>

Content and Value-Added Applications

Among the latest SEMC initiatives is the expansion of the PlayNow™ digital content distribution application into a full service line this year (Sony Ericsson, 2008b). PlayNow debuted in February 2004 as a convenient way to listen

before purchasing polyphonic ringtones by direct download. The service has proven so popular – it is now offered in 32 global markets – that both PlayNow and Fun & Downloads have exceeded 200 million annually.

The potential of this service is that PlayNow can also accommodate mastertones (MP3 ringtones), games, themes and wallpapers, and full music tracks. The latter means that, as a channel for paid downloads from the SONY music inventory, PlayNow has limitless after-sale revenue potential.

Renamed the “PlayNow Arena” service, it is also an open multimedia platform that will accommodate alliances with other recording companies or music labels, as well as mobile game (and gaming developers). To date, SEMC is careful to assemble an inventory of at least 200 game titles developed or ported to every new handset model brought to market. This explains why users of Sony Ericsson units download more games than do buyers of any other brand (Jurien, 2007). The inevitable result of such subscriber demand over an open platform? SEMC currently boasts over 100 revenue share agreements with network operators around the globe.

## MARKETING ANALYSIS

### **Global Market Size**

Robust sales in North America and Europe have been compounded by exploding demand in newly industrialised economies like India, China and many Asian markets. Consequently, SEMC reckons, the world market topped 1.1 billion handsets in 2007 (Sony Ericsson, 2008b).

## Mobile Telephony in the UK

At last count, there were 69.657 million mobile cellular subscribers in the country (CIA, 2008), more than twice the number of main or land lines (33.602 million). As uptake grew between 1 and 2 percent each quarter (by Ofcom estimates), the subscriber base could well be 74 million at this time. Handset penetration may already be at saturation point, with 90% of the population in Britain already owning at least one mobile phone (O'Brien, 2008).

While subscriber growth (as indicated by package or SIM purchases) crept up between 1 and 2 percent quarter-to-quarter, revenue increased by an average of 5% for the four mobile operators covered in Q3 2007 (Ofcom, 2008a). This suggests more usage, that is, more calls, lengthier conversations or paid downloads of value-added services.

But just what revenue base are we talking about? Over the five-year period from 1997 to 2002, the domestic market expanded 153.3 percent to the level of £8.18bn. The subscriber headcount ballooned by 412.9 percent although call minute volume grew “just” 383.6% (Research and Markets, 2004). This suggests that subscribers with lower disposable income had entered the market.

Nor has market growth been uniform. The peak of revenue growth was 35% from 1999 to 2000. This slowed down to 19.2 percent year-on-year in 2002. Again, these show that the UK market at least has reached the plateau phase of growth. Snatching or defending market share will have to go hand-in-hand with convincing subscribers to trade up to newer, jazzier models.

## The Competition





Undaunted by the dominance of Nokia, as well as the clear leads enjoyed by Motorola and Samsung, SEMC has stuck to its guns. The company leveraged its core competencies in music and video to claim a global market share up two percentage points to better than 9 percent last year (Sony Ericsson, 2008b).

Three years back, Nokia's share of the world market fell to less than a third (see accompanying table). New entrants from Asia had exploited gaps in the Nokia portfolio, in particular the absence of the now-familiar clamshell design (Bartlett, 2005).

GLOBAL MARKET SHARE 2004	
Nokia: .....	30.4%
Motorola: .....	15.3%
Samsung: .....	12.7%
Siemens: .....	7.2%
LG: .....	6.5%
Sony Ericsson: .....	6.2%
Others: .....	21.7%
Source: Strategy Analytics	

By late last year, however, the Finnish rival had surged to 40.2 percent share, exceeding the combined shares of the next three in line: Samsung, Motorola and SEMC (O'Brien, 2008).

For its part, SEMC achieved remarkable volume growth in recent years.

-  2004: 42 million units
-  2005: 50 million units
-  2006: 74 million units
-  2007: 103.4 million units (IDC, 2008)

The effectiveness of advertising targeting a personalized music experience was revealed in the fact that Sony Ericsson moved 60 million music-enabled phones in 2006

(counting 17m of the popular “Walkman” models), far better than Apple's iPod which sold 39m units in fiscal 2006.

On the continent, SEMC may well have pulled even with Nokia. The Swedish Magazine M3s (issue 7/2006) published data asserting that Sony Ericsson is already the best-selling brand in Nordic Europe.

### **Market Development**

At last count, industry growth continued apace at a satisfying 1.5% clip from the second to the third quarters of last year. Going by Office of Communications (2008b) analysis that growth was driven by multiple-subscription users – that is, those who had more than one handset or SIM – it would appear that the period of rapid expansion is over. One is justified in suggesting that the industry has already entered the plateau phase of its product life cycle.

Nonetheless, the multi-user phenomenon is beneficial to handset makers like Sony Ericsson. The successful entry of the Apple iPhone also demonstrates that improved functionality and aesthetics motivate subscribers to upgrade.

Heavier usage of SMS and MMS appear to be driving revenue growth as well (Ofcom, 2008a). At least for the four carriers covered by official reports, these services contributed from 15% to 25% of paid revenue. The probable usage rates may be considerably higher given that toll charges and revenue-per-transaction for SMS and MMS are generally lower than for regular calls.

### **Bargaining Power: Carriers, Developers, Consumers, Retailers**

It is in the nature of the business that the most critical stakeholders for SEMC are the mobile cellular system operators because the latter provide the infrastructure that

drives mobile telephony usage. The two largest mobile telephony operators in the UK are Vodafone and O2 while the second-tier carriers are T-Mobile and Orange. In the third quarter of 2007, the last period for which information has been tallied, the two leaders each logged around £1 billion in call revenue (Ofcom, 2008b).

**SWOT**

<p>Strengths</p>	<ul style="list-style-type: none"> <li>✚ Synergy with other SONY operations and products (e.g. Sony BMG, SONY car radios and lately, even the PlayStation)</li> <li>✚ Award-winning products. The V800, for instance, was voted Best 3G Handset for 2004 by the GSM Association. A year ago, the K800 Cyber-shot won the ‘Best 3GSM Mobile Handset’ award.</li> <li>✚ Was first to launch Java 3D-enabled handsets, and aggressively pursues broadening the market for 3D gaming (Sony Ericsson, 2007b).</li> <li>✚ Worldwide, one-look brand-building ad campaigns (Sony Ericsson, 2008b)</li> <li>✚ The PlayNow Arena will provide incremental revenue streams from mobile games, gaming and music partners.</li> <li>✚ Primacy to margins rather than market share (Marketing Week, 2007b)</li> </ul>
<p>Weaknesses</p>	<ul style="list-style-type: none"> <li>✚ Primacy in Northern Europe and the UK still has to translate to the “look of the leader” globally.</li> </ul>
<p>Opportunities</p>	<ul style="list-style-type: none"> <li>✚ Given that market at or close to saturation, retain emphasis on trading up.</li> <li>✚ Progressive convergence of communications, gaming, music, location-tracking and vide</li> </ul>

	<ul style="list-style-type: none"> <li>✚ Well-positioned to leverage the transitioned from voice to content services.</li> <li>✚ Higher unit revenues from increasingly more sophisticated handsets. This is consistent with SEMC's premium market positioning.</li> <li>✚ Negotiate to obtain mobile gaming (online casinos) platforms.</li> <li>✚ "Mobile marketing", advertising over mobile cellular networks (Marketing Week, 2007a).</li> </ul>
Threats	<ul style="list-style-type: none"> <li>✚ Falling average selling prices (and the resultant effect on its high-level image) because SEMC broadened its portfolio to keep pace with aggressive entry-level pricing for the Nokia 1100 in developing markets.</li> <li>✚ Nokia acquired Navteq, making it potentially more costly for SEMC to acquire the digital maps needed for embedded location tracking in the near future.</li> <li>✚ Personal navigation device manufacturers have transitioned to offering embedded phone capabilities.</li> <li>✚ "Nokia Comes with Music" (Palmer, 2008).</li> </ul>

### Sales and Financial Performance

In 2007, SEMC reported handset sales had exceeded 100 million units with an underlying growth rate (26 percent) over twice the global average. As well, the company reported having surpassed industry leader Nokia in point of net income (Sony Ericsson, 2008a).

The consolidated financial summary for Sony Ericsson Mobile Communications AB (Sony Ericsson) for the fourth quarter ended December 31, 2007						
	Q4 2006	Q3 2007	Q4 2007	2006 FY	2007 FY	£
Number of units shipped (million)	26	25.9	30.8	74.8	103.4	
Sales (Euro m.)	3,782	3,108	3,771	10,959	12,916	£9,762
Gross Margin (%)	29.00%	30.70%	31.80%	29.10%	30.60%	
Operating Income (Euro m.)	484	393	489	1,257	1,544	£1,167
Operating Margin (%)	12.80%	12.70%	13.00%	11.50%	11.90%	
Income before taxes (Euro m.)	502	384	501	1,298	1,574	£1,190
Net income (Euro m.)	447	267	373	997	1,114	£842
Average Sales Price (Euro)	146	120	123	146	125	£94
1 Euro = 0.75577 British Pound as of Feb. 19, 2007						
(Sony Ericsson, 2008b)						

### Near-Term Trends

The most significant developments in the near term will likely be:

- ✚ The integrated single-chip, incorporating all phone circuits plus memory, that will open up new design possibilities beyond the ubiquitous “candy bar”.
- ✚ Faster CPU’s, storage beyond the common 8-gigabyte standard to power more powerful video applications and transmission.

### The Product X Launch

On the assumption that a breakthrough campaign should showcase a high-end product, our choices for the brand to be highlighted narrow down to the W910i and the Experia X1.

The potential of the Experia X1 lies in the fact that it uses the Windows Mobile platform. For businesses and even schools, such a device integrates cellular phones into the server, desktops, Web-based applications and databases as laptops and notebooks

are now. Such a business-ready phone should help SEMC attain equal footing with, say, Motorola and Samsung in the corporate market (Sjöström, 2008).

## Advertising Strategy

**Product Offering** – I propose a next-generation Esperia X3, one that augments the current capabilities and work functionality of the X1 with a sportier, sleeker look, more colours, better music capabilities than the W910i, and all the capabilities of the Sony Videocam built in.

**Advertising Concept** – Heavily aspirational, the ultimate 3G phone in the world. Embodied in the theme, “I [SEMC icon] having it all”. Sub-headline: “For all the lives, you live, ready whenever you are.”

**Benefits** – “Be the best mobile warrior at work, tune in to sports broadcasts and YouTube when you need a breather, tune in to radio, download and share music to your heart’s content. And best of all, the Esperia X3 is your “Videocam” in a pocket. Capture a presentation, catch a cloud, record every goofy moment, zoom in close to the action on the pitch or the rugby field, the lass in the train, rabbit all you like but never miss another moment, lovely or daft.”

**Execution** – A 90-second extravaganza. Cristina Aguilera to reprise what she did for the W-series, Australian Open charmer Maria Sharapova to join the returning pair of Ana Ivanovic and Daniela Hantuchova. All co-emceeding, with David Beckham, a Wembley concert featuring the Arctic Monkeys, Take That, Foo Fighters, Kate Nash, Kylie Minogue, Mark Ronson, Mika and Adele. Clips of this “X3 Festival” shall be edited into the 90-second Tv commercial and a 120-second radio advert.

**Supplementary Campaign** – Create full-page newspaper or magazine ads and posters depicting each one of the above pool of talents in a situation that plays up the features or capabilities of the Esperia X3. For maximum novelty, rotate the posters and press inserts at monthly intervals for the rest of the year.

**Promotion** – Run three video contests centred on sports, family and business timed for spring, summer and fall. Have all participants send them to a YouTube clone to be named the “Sony Ericsson X3 Video Awards”. Just before Christmas 2008, re-assemble the all-star cast for the Annual Awards, paying out cash prizes starting at £100,000.

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